

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of.

THE PETITION OF BRANDENBURG TELEPHONE)	
COMPANY, A KENTUCKY CORPORATION, FOR)	
AUTHORITY TO INCREASE ITS EXCHANGE)	CASE NO. 8175
RATES AND CHARGES AND CERTAIN OTHER)	
RATES AND CHARGES)	

O R D E R

On March 20, 1981, Brandenburg Telephone Company ("Brandenburg") filed an application requesting to increase its intrastate rates and charges by \$1,074,797 annually. Brandenburg stated that the requested increase was necessary in order to efficiently maintain and operate its expanded service and existing system, to meet the principal and interest payments on its loan from the Rural Electrification Administration and the Rural Telephone Bank, to have sufficient cash available for renewals and replacements and to have a reasonable allowance for emergencies and contingencies.

In order to determine the reasonableness of the proposed increase, the Commission held a public hearing on August 6, 1981, with the Consumer Protection Division of the Attorney General's Office being the sole intervenor. A further hearing was held on September 23, 1981, in Brandenburg, Kentucky to receive public comment with regard to the proposed increase. The matter is now considered to be fully submitted for final determination.

The Commission notes with approval that this is the first rate increase Brandenburg has requested since 1965.

TEST PERIOD

For the purpose of testing the reasonableness of the proposed rates, the Commission has adopted the 12 months ending December 31, 1980, as the test period. In accordance with Commission policy, pro forma adjustments have been included when found appropriate.

NET INVESTMENT

Brandenburg proposed an adjusted net investment rate base of \$12,476,632.⁽¹⁾ The Commission has accepted Brandenburg's proposal with the following exceptions:

Known Adjustment to Telephone Plant:

Brandenburg proposed an adjustment to its December 31, 1980, investment in telephone operations of \$651,700 ⁽²⁾ to record the estimated construction of outside plant to be performed during 1981. Brandenburg, moreover, made the corollary adjustment to reflect the increased capital associated with this investment and further proposed to reflect the annual depreciation expense related to these assets as adjustments to its income statement.⁽³⁾

The Commission has carefully reviewed the evidence with respect to the inclusion of these out-of-period additions to investment and capital. Brandenburg has made no adjustment to quantify the effects on local service revenue and on operating expenses resulting from these capital additions. Since the end-of-period levels of local service revenue and operating expenses were not adjusted to reflect the effects of these capital additions, the Commission concludes that the adjustment to investment for

(1) Notice pg. 24.

(2) Notice pg. 8, Adjustment No. 3.

(3) Notice pg. 8, Adjustment No. 4.

ongoing additions to plant may have the effect of distorting the test period level of earnings. Therefore, these adjustments have been excluded from capital and net investment.

Cash Working Capital

Brandenburg proposed to include cash working capital allowance of \$267,173 ⁽⁴⁾ as a component of its rate base. As Brandenburg does not charge for its local telephone service in advance, the Commission has allowed the inclusion of this item in its rate base. The Commission, however, has decreased the amount of cash working capital allowed to \$252,531 to reflect the level of operating expenses found reasonable herein.

Depreciation Reserve

Brandenburg proposed several adjustments to depreciation expense and reserve. The Commission has disallowed depreciation on the \$651,700 of estimated additional plant in service, which was disallowed by the Commission above. ⁽⁵⁾

Deferred Taxes

Accumulated deferred income taxes of \$878,701 ⁽⁶⁾ have been deducted from Brandenburg's rate base. This represents income taxes which have previously been included in Brandenburg's cost of service and will not be paid to the taxing authorities until some future time.

(4)Return on Net Investment, Capital Structure and Stockholder's Equity, page 24 of notice.

(5)Notice of Adjustments No. 4 and 11.

(6)Balance Sheet, page 5 of notice.

Based upon the above adjustments, the Commission finds the appropriate net investment rate base in this case is \$10,996,107, calculated as follows:

Telephone Plant:

In Service	\$15,176,867
Under Construction	13,898
Subtotal	<u>\$15,190,765</u>

Add:

Materials and Supplies	\$ 293,357
Prepayments	55,240
Cash Working Capital	252,531
Subtotal	<u>\$ 601,128</u>

Less:

Depreciation Reserve	\$ 3,917,085
Unamortized Deferred Taxes	878,701
Subtotal	<u>\$ 4,795,786</u>

Net Investment Rate Base	<u><u>\$10,996,107</u></u>
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The Commission is aware of other methods of valuation which were not included in the evidence of record. The Commission has, however, given due consideration to all elements of value as required by Kentucky law in determining the reasonableness of the matter herein.

REVENUES AND EXPENSES

Brandenburg proposed various adjustments to its income statement to reflect more current operating conditions. The Commission is of the opinion that these adjustments are proper and have been accepted with the following exceptions:

Normalized Revenues

Brandenburg proposed several pro forma adjustments which decreased its test period operating revenues from \$3,886,253 to \$3,867,924. Brandenburg's revenue normalization was based on annualizing the last month of its test period. The Commission, in its analysis of Brandenburg's operations, has determined that annualizing the last quarter of the test period is a more reasonable method for normalizing the operating revenues and finds that, after taking into consideration the provision for uncollectibles, the appropriate level of normalized operating revenues is \$3,974,965.

Employee Concessions

The Commission has increased Brandenburg's operating revenues by an additional \$8,147⁽⁷⁾ to include revenues available to Brandenburg in the absence of employee discounts on local service. The Commission finds no evidence that these discounts are part of Brandenburg's wage requirements and are, therefore, the responsibility of its stockholders.

Payroll Taxes - FICA

The Commission has adjusted the payroll tax expense of Brandenburg to reflect the increase in the FICA tax rate and the additional level of payroll expense allowed herein and has determined the appropriate amount for this expense to be \$11,911,⁽⁸⁾ or an increase in operating expenses of \$5,417.

(7) Testimony of Mr. John and Mr. Richardson.

(8) $(\text{Gross test period payroll} \times \text{increase in FICA rate} + \text{pro forma increase in payroll} \times \text{new FICA rate}) - 19.8\% \text{ payroll capitalized test period. } (\$1,409,865 \times .0052 + \$113,100 \times .0665) - 19.8\% = \$11,911.$

Property Tax

The Commission has accepted Brandenburg's method of computing its pro forma level of property tax and, based on the amount of plant in service and materials and supplies allowed herein, has determined the amount of this expense to be \$105,769⁽⁹⁾ or an increase in operating expenses of \$9,867.

Rate Case Expenses

Brandenburg included in its test period operations expenses of \$7,500 associated with this rate case. In accordance with past Commission policy and based on Brandenburg's prior rate case history, the Commission has amortized these expenses over a 3-year period. This reduces Brandenburg's operating expenses by \$5,000.

Depreciation Expense

Brandenburg proposed to increase its depreciation expense by \$183,126⁽¹⁰⁾ to reflect the additional expense associated with its proposed pro forma additions to plant in service. The Commission has rejected a portion of Brandenburg's pro forma plant in service and, therefore, the portion of depreciation expense associated with the disallowed plant in service has been eliminated. Further, it was learned through cross-examination of Brandenburg's witness, Mr. Joseph Richardson, that the disallowed portion of depreciation expense had also been included in a previous adjustment and was double-counted.⁽¹¹⁾ The Commission, has, therefore,

(9) Notice Adjustment No. 8

(10) Notice Adjustment No. 4 plus Adjustment No. 11 page 6 of notice.

(11) Notice Adjustment No. 4 was also included in Adjustment No. 11.

reduced Brandenburg's depreciation expense by \$64,518.

Interest on Long-Term Debt

Brandenburg proposed to increase its interest expense on long-term debt by \$105,940. ⁽¹²⁾ The Commission has accepted the portion of this adjustment associated with the normalization of interest expense for the test period. However, the portion of the adjustment related to additional long-term debt to finance the portion of pro forma plant in service which has previously been rejected has been eliminated from this adjustment. In addition, through further cross-examination of Mr. Richardson, it was learned that Brandenburg failed to make allowance for additional interest expense generated by its long-term debt associated with the pro forma additions to plant in service allowed by this Commission. The Commission, therefore, has adjusted Brandenburg's pro forma interest expense by a net increase of \$26,045. ⁽¹³⁾

Therefore, Brandenburg's test period operations are adjusted as follows:

	<u>Brandenburg's Pro Forma</u>	<u>Commission Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$3,820,002	\$ 163,110	\$3,983,112
Operating Expenses	3,244,006	90,976 ⁽¹⁴⁾	3,334,982
Net Operating Income	\$ 575,996	\$ 72,134	\$ 648,130
Interest on Long-Term Debt	353,137	26,045	379,182
Net Income	<u>\$ 222,859</u>	<u>\$ 46,089</u>	<u>\$ 268,948</u>

(12) Notice Adjustment No. 4 and Adjustment No. 7.

(13) [Long-term debt, Adjustment No. 2) \$1,023,773 @ 7% interest (Notice, pg. 22) less \$45,619 (Notice Adjustment No. 4)] = \$26,045.

(14) Adjusted for income taxes.

RATE OF RETURN

The Commission is of the opinion that Brandenburg's adjusted operating income which produces a return on net investment of 5.84% is unjust, unfair and unreasonable. The Commission is further of the opinion that a fair, just and reasonable rate of return on Brandenburg's net investment is 9% in that this return will provide revenues sufficient to pay Brandenburg's operating expense, service its debt and provide a reasonable surplus for equity growth.

To achieve the return found fair, just and reasonable the Commission has determined that Brandenburg is entitled to increase its rates and charges to produce additional revenues of \$681,332 which after adjustment for income taxes and uncollectibles, will produce operating income of \$989,651⁽¹⁵⁾ on a test period basis.

RATE AND TARIFF DESIGN

The major rate design proposals made by Brandenburg were the introduction of multielement service connection charges and the disaggregation of network access and telephone instrument rates.

Historically, Brandenburg has charged service connections on a flat rate basis. In this case, Brandenburg proposed a multielement rate design, distinguishing between service orders,

(15) a. Uncollectible revenues were calculated by using the percentage of Brandenburg's proposed bad debts expense to its proposed increase in revenue and applying this percentage to the adjusted levels of revenue before the inclusion of uncollectibles.

b. State and federal income taxes based on the income allowed have been determined to be \$552,404.

central office connections, and premise visits, for example. The principle advantage of the flat rate approach is ease of administrative application. However, it fails to properly allocate the cost-of-service burden. The Commission has long taken the position that subscribers initiating service order, central office, or premises visit types of service activity should bear the associated expense burden. Therefore, consistent with its action in other cases, the Commission is of the opinion that Brandenburg's multielement rate design for service connection charges should be approved.

Brandenburg also proposed to disaggregate network access and telephone instrument rates, as required by Federal Communications Commission rulings. The Commission has previously approved disaggregation proposals in cases involving General Telephone Company of Kentucky, South Central Bell Telephone Company, Cincinnati Bell, and Continental Telephone Company of Kentucky. Therefore, the Commission is of the opinion that Brandenburg's disaggregation proposal should be approved, including its proposed regulations governing interconnection with customer provided terminal equipment.

Although Brandenburg did not propose any changes to its present tariff concerning late payment penalties, this item was discussed at the hearing August 6 and is a matter of concern to the Commission. Because Brandenburg does not

bill in advance for local service charges, as is customary with other telephone utilities, the company charges a late penalty fee for bills paid after the due date. Brandenburg enforces this tariff such that if the due date falls on a non-business day such as weekends or holidays, the customer must pay the late penalty fee even if the bill is paid on the next subsequent business day. The Commission does not accept this tariff interpretation, and in the interest of fairness to its customers, Brandenburg should not charge late penalty fees when the due date falls on a non-business day, and the bill is paid by the first subsequent business day following the due date.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

(1) The rates and charges in Appendix A, attached hereto and made a part hereof, will produce gross annual operating revenues of approximately \$4,714,429 and are the fair, just and reasonable rates to be charged in that they will allow Brandenburg to pay its operating expenses, service its debt and provide a reasonable amount of surplus for equity growth.

(2) The rates and charges proposed by Brandenburg and set out in its notice should be denied in that they produce revenues in excess of those found fair, just and reasonable by

the Commission and should be denied upon application of KRS 278.030.

(3) Brandenburg's proposed multielement service connection charge rate design should be approved.

(4) Brandenburg's proposed disaggregation of network access and telephone instrument rates should be approved.

(5) Brandenburg's proposed regulations concerning the interconnection of customer provided equipment should be approved.

(6) Brandenburg has in the past been following a flow through approach with respect to its job development investment tax credits.

(7) Under Section 46(f) of the Internal Revenue Code Brandenburg is required to normalize these investment tax credits with ratable amortization of the credit to operations over the useful life of the property.

(8) Prospectively Brandenburg should follow the prescribed accounting treatment for job development investment tax credits as specified in Section 46(f) of the Internal Revenue Code.

(9) Brandenburg's tariffed late penalty fee should not be charged when the billing due date falls on a non-business day, and the bill is paid by the first subsequent working day thereafter.

IT IS THEREFORE ORDERED that the proposed schedule of rates and charges by Brandenburg Telephone Company in its notice is hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates and charges in Appendix A, be and are approved as the fair, just and reasonable rates to be charged by Brandenburg Telephone Company on and after November 1, 1981.


IT IS FURTHER ORDERED that Brandenburg's proposed regulations concerning the interconnection of customer provided equipment be and they hereby are approved.

IT IS FURTHER ORDERED that Brandenburg's tariff concerning late penalty fees shall be interpreted in accordance with finding no. (9) for bills with due dates on and after the date of this Order.

IT IS FURTHER ORDERED that within 30 days after the date of this Order, Brandenburg Telephone Company shall file with this Commission its revised tariff sheets setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 2nd day of November, 1981.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8175 DATED NOVEMBER 2, 1981

The following rates are prescribed for customers served by Brandenburg Telephone Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

LOCAL EXCHANGE SERVICE

Network Access Rates

- A. The following network access rates are applicable within the Base Rate Access of the Brandenburg, Battletown, Payneville, North Garrett, Irvington, Custer, Radcliff and Vine Grove Exchanges.

	<u>Monthly Rate</u>		
	<u>One-Party</u>	<u>Two-Party</u>	<u>Four-Party</u>
Business	\$ 13.05	\$ 9.80	None
Residence	8.70	6.50	None

- B. The following network access rates are applicable outside the Base Rate Area of the Brandenburg, Battletown, Payneville, North Garrett, Irvington, Custer and Vine Grove Exchanges.

	<u>Monthly Rate</u>		
	<u>One-Party</u>	<u>Two-Party</u>	<u>Four-Party</u>
Business	\$ 13.05*	\$ 9.80*	\$ 9.80
Residence	8.70*	6.50*	6.50

*plus applicable mileage charges

- C. The following network access rates are applicable within the Locality Rate Area of Doe Valley Park Estates.

	<u>Monthly Rate</u>		
	<u>One-Party</u>	<u>Two-Party</u>	<u>Four-Party</u>
Business	\$ 16.50	None	None
Residence	12.25	\$ 9.20	None

GENERAL EXCHANGE SERVICE

Service Connection Charges

Non-recurring Rate

Service Ordering Charge, each	\$ 8.00
Central Office Charge, each	3.50
A Premise Visit Charge, each	14.00
Line or Drop Charge, each	7.00
Wiring Charge:	
2 pair required	3.00
3 pair required	5.00
16 pair required	10.00
25 pair required	13.00
50 pair required	22.00
Wire and cable extending beyond 150 feet in length or extending outside of a building will be made on installed cost basis and/or applicable service connection charges	
Connection and Test Charge, each	2.00
Pole Charge, each	35.00
Extension or P.B.X. Stations; Extension Lines Terminating in Key Equipment; Bells, Gongs, Horns, Chimes, or Lamps, each	Applicable service connection charge
Where Instrumentalities in Place are Taken Over by a New Applicant and no Change is Made at the Applicant's Request	Applicable service connection charge
Restoral of Service	Applicable service connection charge
Return Check Charge, each	10.00
Malicious Call Identification, each	40.00
Collection Charge, each	Applicable service connection charge

Inside Moves and Changes

Inside Move Charges

Inside moves of telephone service or equipment	Applicable service connection charge
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Inside Move Charges (cont'd)

Change Charges

Non-recurring Rate

Applicable service
connecting charge

Directory listing change charges

Applicable service
connecting charge

Directory listing change

Applicable service
connecting charge

Miscellaneous Service and Facilities

Monthly Rates

Booths:

Full length, enclosed, standard indoor
type, each

1/33 of Cost

Full length, enclosed, standard outdoor
type, each

1/33 of Cost

Special type, each

1/33 of Cost

Buzzer Circuits:

Non-recurring Rate

Installation charge

Applicable service
connection charge

Extension and Auxiliary Signals

Monthly Rates

Audible Signals

Operated by ringing current-
extension bells, ordinary type, each
Extension bells, loud ringing type, each
Chime-toned bells, each

\$.40
1.10
.90

Extra Directory Listings

Regular extra listings and special types
of extra listings that are furnished at
regular extra listings rates, each

1.00

Jack and Plug Equipment

Non-recurring Rate

Mounted modular jacks

Applicable service
connection charge
Applicable monthly
outlet charge

Miscellaneous Service and Facilities (cont'd)

Telephone Instruments

Monthly Rate

Standard telephone residence	\$.55
Standard telephone business	.80
Miniwall telephone residence	.70
Miniwall telephone business	1.00
Ericfon telephone residence	.70
Ericfon telephone business	1.00
Dial in handset telephone residence	1.55
Dial in handset telephone business	1.80
Small telephone illuminated dial in base of set (petite) residence	1.20
Small telephone illuminated dial in base of set (petite) business	1.45
Single slot coin station semi-public	4.00
Two-line telephone residence	2.65
Two-line telephone business	2.90
Three-line telephone residence	3.50
Three-line telephone business	3.80
Six button key box	1.65
Six button key telephone residence	2.20
Six button key telephone business	2.45
10 button key box	2.80
10 button key telephone	3.60
12 button key box	3.35
12 button key telephone	4.15
20 button key box	5.60
20 button key telephone	6.40
Busy display each	1.25
Busy feature each instrument	.15
Private feature each instrument	.10

Electronic Telephone

Northern telecom SL 1 telephone	6.05
Northern telecom 10 button	2.80
Northern telecom hands free	10.00

Outlet Charges

One pair outlet	.30
Two pair outlet	.45
Three pair outlet	.55
16 pair outlet	1.10
25 pair outlet	1.20
50 pair outlet	1.80

Local Messages

The rates for local messages from public and semi-public telephones is \$0.25 for each five minutes or fraction thereof.

Miscellaneous Services and Facilities (cont'd)

Long and Retractable cords

Monthly Rates

Long and retractable cords will be furnished at \$0.35 per foot.

Mileage Charges

Extra exchange line mileage

Individual line, each one-quarter mile or fraction thereof.	\$ 0.35
Two-party line, each one-quarter mile or fraction thereof.	0.25
Four-party line, each one-quarter mile or fraction thereof.	None
Private branch exchange trunk, each one-quarter mile or fraction thereof.	0.35

Extension or P.B.X. station mileage

Extension or P.B.X. station line, each one-quarter mile or fraction thereof in excess of 150 feet	0.90
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Special Circuits

Local loops

An installation charge equal to the cost of labor required to install such loops applies to each loop in lieu of a service connection charge. The minimum installation charge shall be applicable service connection charge.

Channel Circuits

Channels for P.B.X. tie lines, or alarm circuits, and like purposes, first half-mile or fraction thereof circuit measurement	5.00
Each additional one-quarter mile or fraction thereof	1.00
Channels, for use in connection with inter-exchange facilities for Radio Broadcast; channels between pick-up points and a Radio Station or Studio, between a Radio Station and Studio, between Studio and/or Station and Transmitter, first one-half mile or fraction thereof circuit measurement	5.00
Each additional one-quarter mile or fraction thereof	1.00

Miscellaneous Services and Facilities (cont'd)

Channel Circuits cont'd

Monthly Rates

An installation charge equal to the cost of labor required to install such channels applies to each channel in lieu of a service connection charge. The minimum installation charge shall be the applicable service connection charge.

Weatherproof Telephones and Telephones for use in Explosive Atmosphere

Weatherproof Telephones

Each weatherproof housing post

\$ 0.75

Telephones for use in explosive atmosphere

14.00

Wiring Plans - Key Systems

Key cabinet six-line maximum

10.00

Key cabinet 13-line maximum

15.00

Intercoms Dial Selective

18-station rotary dial

6.50

9 to 10 station rotary or tone dial

7.70

18 to 19 stations rotary or tone dial

9.70

Non-recurring Rate

Installation charge

Applicable service connection charges

Monthly Rate

Trunk Hunting Service Arrangements

Hunting service arrangement, per line or trunk in a group so arranged

0.95

Public Address Paging

Amplifier 10 watts paging Melco KY 363

5.00

Data Sets and Couplers

Data coupler 1001, A, B, Etc.

6.00

Miscellaneous Services and Facilities (cont'd)

Special Equipment Customer Engineered

Monthly Rates

Ring down circuit with power

\$ 10.00

Telephone number irregular listing

Non-published

Business or residence

2.00

Non-listed

Business or residence

1.50

Foreign Exchange Service

Each circuit

1.00 per month per
quarter-mile
or fraction
thereof

Tie lines

1.00 per month per
quarter-mile
or fraction
thereof

Private branch exchange stations

1.00 per month per
quarter-mile
or fraction
thereof

Rental of mobile equipment

Company provided mobile unit

75.00

Customer provided mobile unit

40.00

Non-recurring Rate

Installation and move charges

Applicable service
connection charges

Installation charges

Applicable service
connection charges